

opposites. When people speak of their licensing income, they should always be asked to separate domestic income from foreign, and infringement income from other income.

One important exception to the limitations placed by management on domestic licensing is my third category of items, which I refer to as "underused". I am convinced that an aggressive Licensing Department can do one of its most useful jobs by challenging its own managers to look more deeply into licensing as a profit-enhancing strategy, even though the technology is in use or expected to be used by one's own company. Most managers are not aware that field limited licenses can be used to profit from such technology and patents. Nor do they generally consider adequately the possibility that a new field might be opened up much sooner and more profitably by licensing than by hoping to keep all the business. And still another issue they need to understand is the importance of good timing in a licensing program. For example, it is not good business to wait to discuss licensing until infringers are heavily committed by their own R&D and marketing investments, if in fact their moves toward infringement are predictable from market conditions and general business pressures.

In one of my efforts to articulate the Licensing Department philosophy for Bendix line management, I said that my services "should help them *early* in each new licensing strategy effort to cut through the mystery and indecision which sometimes surround these licensing matters."

The only remaining issue I want to explore in somewhat greater depth is the question of technology selling techniques. My friends in the General Electric "Technology Marketing Operation" are convinced that publication is the most effective approach, because, as one of them said to me, "the company who wants the item is invariably one whom you would have regarded as least likely to be interested." On the other hand, our experience thus far has been slightly better with selected prospects. One reason for the difference is that GE has done a much better job than we have in dealing with the problem of "fishing expeditions". They provide documented data in response to initial inquiries for a reasonable charge, usually \$50. We have not been willing, thus far, to invest in getting such data ready in advance, and therefore, must respond to specific questions.

I can't tell you anything of real value about the efficacy of brokers, or consultants. My operation has not been authorized to spend any money for such services, because, as my boss says "that's what we're paying you for". Of course, any broker who is working on a retainer to look for new products is most welcome to explore with us what we have available. We have exposed our material to several brokers so far, but the responses have been limited.

In conclusion, I do not recommend this technology marketing to anyone who is very rigidly programmed either to certain ways of doing things, or to certain inviolate expectations about this business. I've given talks on this experience before. This one is quite different from its predecessors, and I'm

sure the next one will differ in various ways from this one, even though I have not avoided "telling it like it is" from my vantage point. In sum, it's a very experimental and very fluid operation.

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CLARIFICATION OF PATENT LICENSING: R_X FOR THE AILING TECHNOLOGICAL TRADE BALANCE

by

*William Marshall Lee**

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In our "Age of Exploding Technology,"¹ patent licensing is an increasingly important vehicle for promoting "the Progress of . . . useful Arts" as called for in Article I, Section 8 of the U.S. Constitution, the mandate for our patent law.² Anomalously, patent licenses have been currently subjected to increasingly vigorous attacks in the courts under the antitrust laws, both in private litigation and in cases generated by the Antitrust Division of the Department of Justice.³

Senator Hugh Scott of Pennsylvania has sought to cure this anomaly through introduction of the "Scott Amendments."⁴ The proposed amendments are intended to clarify and stabilize the law relating to patent licensing largely by codifying existing court-made law.⁵

The Commerce Department has recast the amendments in the form of proposed substitutes for Sections 261 and 271 of the current patent law.⁶ The recast sections would insure that licensing provisions which have demonstrated their efficacy in promoting invention would be protected from attack as *per se* antitrust violations, thus stemming over-zealous extension of the antitrust laws to the long-range detriment of the nation. Antitrust enforcement relative to matters beyond the proper scope of the inventor's reward would be unaffected. Control of a licensee's selling price,⁷ tie-ins,⁸ restrictions on resale,⁹ restrictions relative to activities outside the scope of a patent,¹⁰ and joint control over the granting of additional licenses,¹¹ are all expressly excluded from protection under the recast sections. Also, the proposals do not authorize a licensor's dictation of royalty arrangements which are not agreeable to a licensee.¹²

The major thrust of the proposed amendments, regardless of their form, is to help spark the incentive to invent which has recently been lagging in the U.S. relative to other nations. In a July, 1971 statement to the House of Representatives former Secretary of Commerce, Maurice H. Stans, correctly predicted that our nation's international trade balance would show a deficit in 1971 for the first time in almost a century. In his well-supported statement, Secretary Stans concluded that enhancement of the level of

technological development may be our only hope of reestablishing and maintaining a favorable balance of trade. He pointed out:

"While U.S. technological development has not been stagnant, our competitors have been making greater relative efforts and are in effect catching up."

And subsequently, under the heading "Patent Activity," he warned:

"There is growing evidence that other nations have been much more aggressive than the U.S. in patenting new technologies. Even in the applications for patents by foreigners to the U.S. Patent Office, the share of foreign applications for U.S. patents has grown steadily from 25% of U.S. patent applications in 1961 to nearly 45% in 1969. This, of course, represents only a portion of the total foreign patent activity."¹³

A great deal of evidence and expert opinion has been presented showing the necessity for clarification of patent licensing law in order to attract and protect investment in new technology. It is believed that the case showing the importance of the proposed amendments to the critical area of business investment has been well established.¹⁴

Surprisingly, very little attention has been directed to a basic tenet: *the proposed amendments are directed primarily toward protection of individual inventors and small technologically oriented businesses which rely upon the patent system to help them deal on a more even footing with the giants of industry.*¹⁵

The Basic Nature of a Patent Has Been Misunderstood

Under the Constitutional mandate, patents are issued to inventors to reward them for achieving and disclosing to the public *new* technological concepts. The underlying purpose is to motivate individuals to make inventions and to further motivate them to disclose rather than suppress these inventions.

A patent is not the grant of a limited monopoly over a *known* segment of technology; instead, it is a contract between an inventor and the government under which the inventor agrees to disclose to the public a hitherto *unknown* technological advance in consideration for the right for a period of 17 years to exclude all others from utilizing the inventive advancement without permission of the inventor or his assignee. Therefore, a patent takes nothing from the public domain but instead provides *new* technology which is eventually added to the public domain.

Men are motivated by a reasonable chance for reward, and hence, they are willing to strive to achieve inventions and to disclose them in return for the exclusive right to promote their brainchildren in the marketplace for a limited time. The general public receives an immediate disclosure of the invention, and after a period of 17 years, the subject matter becomes public property. The progress of the useful arts is promoted by conception and disclosure of the inventive advancement of technology and by development of marketable new products embodying the invention.

The wisdom of the founding forefathers in providing for this reward to inventors has been responsible in no small measure for the world-wide lead of the United States in the field of innovation and technological development.¹⁶

In recent years, however, the effectiveness of patent grants in the United States has been diminished while patents have become increasingly important in other developed countries of the world, including the Soviet Union.¹⁷ The predictable result has been a slow-down in inventive activity in the United States compounded by an increase in inventive activity in other industrialized countries where inventors have recently found a more hospitable climate.¹⁸ While many factors might be cited for this unfortunate slow-down in the United States, there are two which are foremost: (1) the growing tendency of courts to find technological advances to be unpatentable¹⁹ and (2) the growing uncertainty of inventors and industry as to the metes and bounds of the anti-trust laws as they might be applied to patent licensing.²⁰ The proposed amendments offer a solution to this latter problem.²¹

Promotion of the Useful Arts Requires Flexibility of Licensing Within Boundaries of Reasonable Certainty

Technological advance sparked by the Patent System has suffered in recent years because of the lack of reasonable certainty in the important interface between patent law and antitrust law. This is not to say that past antitrust enforcement has been ill-advised or improper. On the contrary, enforcement has been justified in most cases since the attack has been directed against competition-stifling activities which were beyond the scope of the reward to inventors called for in the Constitutional mandate; that is, enforcement has proscribed attempts by some patentees to enforce restrictions on purchasers, licensees and members of the public in general which bore no direct relation to the patent grant.

Very recently, however, spokesmen for the Anti-trust Division have attacked activities of patentees directly within the scope of the patent grant. Specifically, such attacks have been directed against licenses which grant a licensee less than all of the rights under a patent, that is, licenses which grant rights in a specific field of use or in a specified part of the country.²²

From the beginning of the patent law in the United States, the courts have permitted a patentee to license less than all of his rights under a patent.²³ This flexibility of licensing is closely analogous to the flexibility afforded a land owner in granting rights in his land for restricted purposes or granting an easement for specified purposes over a limited portion of his land. The Antitrust Division seems to be saying that a patent owner must license or assign his entire patent if he desires to license or assign any portion of it. This is tantamount to telling a land owner that he must grant an easement for any and all purposes

over his entire land if he desires to grant any easement at all. Furthermore, this land analogy should be coupled with the understanding that grants of limited rights in land, which have been recognized for centuries, deal with existing property which is limited in supply, while grants of limited rights in inventions deal with newly created technology, the potential supply of which is unlimited.

In our complex society most individual inventors seek their reward, at least in part, by licensing manufacturers which have demonstrated interest and ability in particular fields of manufacture. The same is true with respect to small technically oriented development companies which may not have the manufacturing know-how, marketing capacity and financial capability which are required to successfully market a new product. For example, an individual inventor (or development company) may conceive a new pump principle which is applicable generally to the pumping of liquids. In seeking the reward for what he has invented, the inventor understandably attempts to have his new pump principle applied to all kinds of pumps, for example, water pumps, gasoline pumps, hydraulic pumps, etc. The more important the invention, the greater is the benefit to the public in having it applied in as many fields of use as possible. The inventor is interested in doing just this in order to fully reap the reward to which he is entitled under the patent grant.

The typical individual inventor (or small development company) does not have the resources to manufacture and distribute all kinds of pumps himself, and accordingly, he seeks out manufacturers in specific fields. Thus, he endeavors to license a manufacturer in the field of water pumps, another in the field of gasoline pumps, another in the field of hydraulic pumps, etc. He may even be able to supply the demand in one of the fields of use himself, in which case he would retain the rights to this field. Perhaps he is able to supply the demand in a limited territory only, in which event he would retain this territory. However, if he were not free to license portions of his invention in other fields or in other areas, his reward called for in the Constitutional mandate would be partly or, perhaps, completely frustrated. Without this licensing flexibility, he would be forced to seek out one huge company with the capacity for manufacturing all kinds of pumps and with the marketing capability of distributing them throughout the country.

The principle was well stated by William N. Letson, General Counsel of the Commerce Department:

"A strong patent system is an essential tool for stimulating the development of new, better and lower-cost products benefiting the consumer, enhancing our competitive system and increasing our ability to compete in world markets.

"This system, to be fully effective, however, should permit flexibility in patent licensing. If a patent owner is not able to license his patent separately for various uses or in defined territories, he is almost forced to license only to the

largest companies with the ability to market widely diversified products throughout the nation. This may result in less than full use of new technology and eliminates smaller firms from sharing in such developments."²⁴

Thus, if an inventor is not to be permitted to direct licenses to particular fields of use, inventions will tend to gravitate to large companies, and the inventor (or development company) will be left to the mercy of the giants in attempting to achieve full exploitation of his invention. Furthermore, if the products embodying the invention are too large or bulky for economical shipment, the inventor will be forced to deal with a multi-plant licensee if he is not permitted the flexibility of licensing his right of exclusivity to others. The prospect is discouraging to most inventors. As Abraham Lincoln put it, the promise of reward "adds the fuel of interest to the fire of genius." Without the fuel, the inventor is likely to be discouraged to the extent that he drops his efforts to invent, or ceases his efforts to exploit an invention, or keeps the invention secret, all to the detriment of the public in general.

A major objective of the proposed amendments is to codify the existing case law which permits an inventor to grant "field of use" and territorial licenses instead of forcing him to sell his all to one of the industrial giants.²⁵

The other major objective of the amendments is to codify the so-called "rule of reason" of the case law which provides, in essence, that restrictions in a license shall be measured in the light of the circumstances involved and shall not be declared improper if they are reasonable for providing the patentee with the benefits to which he is entitled under the patent grant. Opposition to such a "rule of reason" is illogical on its face. Opponents are actually concerned about a particular pricing provision which was approved by the Supreme Court in the *General Electric* case of 1926 in which the "rule of reason" was also enunciated.²⁶ However, this pricing provision is expressly excluded from consideration under the "rule of reason" in the amendments as most recently proposed.²⁷ so that there is no longer any valid ground for opposition to the rule.

Recognition of the Need for Clarification of Licensing Rights

The proposed amendments to Sections 261 and 271 have been endorsed by a wide range of organizations. The language has been refined over a period of years. In their present form, they represent the collective thinking of many lawyers skilled in patent and antitrust matters.

It is the principles which are important, however. While spokesmen for the Antitrust Division make reference to vagueness of language, they have offered no help toward refinement of the language. Instead, they oppose the principles, preferring continued wasteful litigation, apparently in the hope that "hard cases will make bad law." It is indeed ironical that the very results they seek are anti-competitive as tending to force inventors to deal only with the industrial giants,

as well as anti-progress in tending to reduce the level of invention in this country.

It is appropriate to review the judgment of two of the groups which have led the effort to effect legislative clarification of patent licensing practices.

The President's Commission On the Patent System

In 1965, the President appointed a broad-gauge group of fourteen businessmen, professors, and lawyers to study the U.S. patent system and to make recommendations for improvements to make the system more capable of accomplishing the Constitutional mandate. The report of the Commission²⁸ contained a number of recommendations, including Recommendation XXII which simply and eloquently stated the pressing need for clarification of licensing rights. The recommendation itself reads as follows:

"The licensable nature of the rights granted by a patent should be clarified by specifically stating in the patent statute that: (1) applications for patents, patents, or any interests therein may be licensed in the whole, or in any specified part, of the field of use to which the subject matter of the claims of the patent are directly applicable, and (2) a patent owner shall not be deemed guilty of patent misuse merely because he agreed to a contractual provision or imposed a condition on a licensee, which has (a) a direct relation to the disclosure and claims of the patent, and (b) the performance of which is reasonable under the circumstances to secure to the patent owner the full benefit of his invention and patent grant. This recommendation is intended to make clear that the 'rule of reason' shall constitute the guide-line for determining patent misuse."

From the inception of Recommendation XXII, the recommendation itself and all proposed legislation to implement it have been subjected to a single-minded and well organized attack by the Antitrust Division. The opposition has been recently joined by a group of law professors, including Donald F. Turner of Harvard, who was Assistant Attorney General in charge of the Antitrust Division at the initiation of Recommendation XXII.²⁹ Most opponents demonstrate failure to fully comprehend the Constitutional motivation for the patent law and exhibit lack of definitive knowledge of the actual mechanics of technological advance. Instead of recognizing the broad, long-range benefits to the public through promotion of invention by allowing inventors to exclude all others from their newly created technology for a limited period of time, the opponents instead take a short-range competitive view which should be applied only to technology which is in the public domain. In effect, for the golden egg of immediate competition in newly generated technology, the opponents in their short-sightedness would kill the goose which generates these golden eggs for future competition. Certainly, they exhibit little, if any, interest in stimulation of invention through the patent system.

The American Bar Association's Resolution Recommending Clarifying Legislation

The American Bar Association House of Delegates in August, 1967 approved a resolution recommending clarification of patent licensing in almost the same words as Resoluion XXII of the President's Commission. Further, the Association authorized communication of its resolution to members of committees of Congress and to others concerned with enactment of appropriate legislation.

This recommendation to the Congress by the American Bar Association has also been frustrated by the same group of opponents. Completely misinformed attacks through the news media, timed to appear just before the Senate Subcommittee's October, 1971 vote rejecting the Scott Amendments, bear the unmistakable imprint of these opponents.³⁰

Enactment of Appropriate Legislation is Long Overdue

The national welfare demands an enhanced level of technological development. The nation cannot afford continued worsening of the plight of U.S. Inventors. If the ill-advised and short-sighted attacks on the Constitutional reward for invention are continued, inventors cannot be expected to reverse the current downturn in inventive activity relative to other developed nations.

The proposed amendments would tend toward improvement of the competitive position of the individual inventor and smaller technically oriented companies. They would afford long overdue implementation of the recommendations of the President's Commission, the American Bar Association, and practically every other U.S. organization concerned with invention, manufacturing and technological progress.³¹

The amendments would not authorize price control. They would make no change in the existing law which currently approves "field of use" and geographical licensing. The thrust of the amendments is to permit a patentee to continue to license portions of the rights directly within the patent grant since this promotes the progress of the useful arts and tends toward a broader distribution of rights under patents.

The royalty provisions which would be codified follow the current case law in that they permit flexibility directed by practical considerations but do not authorize dictation of particular royalty arrangements which are not agreeable to a prospective licensee.

Finally, the provisions relating to the "rule of reason," measure of royalties, and "field of use" and geographical licensing are expressly limited to situations in which the assertion of patent misuse is directed *solely* to the particular conduct specified. *Combinations* of conduct which might be considered anti-competitive are not authorized by the proposed amendments but must be measured under the general antitrust laws.

Enactment of the amendments would thus enhance promotion of the useful arts, would tend to-

ward a broader distribution of newly developed technology, and would have no effect whatsoever on technology in the public domain except to advantageously expand its increase with the passage of time.

The nation's fast decreasing technological superiority has sounded the warning. The time has come to stem the short-sighted antitrust attack against the nation's inventors.

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¹"To Promote The Progress of . . . Useful Arts' In an Age of Exploding Technology", Report of The President's Commission on the Patent System, November 17, 1966.

²"Doing Something With Really New Ideas", address by Carl Gosline before the Licensing Executives' Society, Coronado, California, October 15, 1970, "les Nouvelles", Vol. 5, No. 5, pages 231-240; "Keys to Success as a Licensor", J. G. Eckhouse, and "Maximizing Profits as a Licensee", H. A. Hashbarger, address before the Licensing Executives' Society, Chicago, Illinois, April 19, 1971, "les Nouvelles", Vol. 6, No. 3, pages 107-115; "The Importance of Licensing", Dr. B. J. A. Bard, address before the International Congress on Licensing, Paris, France, June 22, 1970, "les Nouvelles", Vol. 5, No. 4, pages 164-166; "The Interdependence of Patents, Research & Licensing", address before the British Institute of Management and the Licensing Executives' Society, London, England, May 12, 1970, "les Nouvelles", Vol. 5, No. 4, pages 135-139.

³"Patent and Antitrust Crusades: Their Causes and Cures", Edwin M. Zimmerman, former Assistant Attorney General in charge of the Antitrust Division, address before the Licensing Executives' Society, Washington, D.C., April 21, 1971, "les Nouvelles", Vol. 6, No. 3, pages 93-96. See also addresses and articles listed under footnote 21.

⁴Amendment No. 24 to McClellan S. 643 (92nd Congress), originally introduced as Amendment No. 578 to McClellan S. 2756 (91st Congress).

⁵Remarks of Senator Scott and supporting statements upon introduction of Amendment Nos. 23 and 24, *Antitrust and Trade Regulation Report*, March 30, 1971, pages E-1 through E-12.

⁶Title 35 U.S. Code.

⁷This was permitted in *United States v. General Electric*, 272 U.S. 476 (1926) but would not be permitted under the recast sections.

⁸*Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

⁹*Ethyl Gasoline Corp. v. U.S.*, 309 U.S. 436 (1940).

¹⁰*Standard Sanitary Mfg. Co. v. U.S.* 226 U.S. 20 (1912).

¹¹*United States v. Besser Mfg. Co.*, 96 F. Supp. 304 (E.D. Mich. 1951), aff'd. 343 U.S. 444 (1952); *United States v. Krasnov*, 143 F. Supp. 184 (E.D. Pa. 1956), aff'd. per curiam 355 U.S. 5 (1957); *McCullough Tool Co. v. Wells Surveys, Inc.*, 343 F. 2d 381 (10th Cir. 1965), cert. denied 383 U.S. 933 (1966).

¹²Pursuant to *Zenith v. Hazeltine*, 395 U.S. 100 (1969).

¹³Statement by Maurice H. Stans Secretary Of Commerce Before The Subcommittee On Science, Research And Development House Committee On Science And Astronautics On Science, Technology And The Economy, dated July 27, 1971, "les Nouvelles", Vol. 6, No. 5, pages 250-256.

¹⁴For Example, the Remarks of Senator Scott and supporting statements, footnote 5; Testimony and statements in support of the

amendments at the hearings before the Subcommittee; "Patents as an Incentive to Invest", addresses by Tom Carney, Gilbert R. Shockley, J. P. Perry, John Gray and Irving Dale, October 19, 1965, 175th Anniversary U.S. Patent System, Proceedings, Vol. II, pages 802-851. For economic data showing the decline of the United States relative to other countries in areas of technological development, see the Statement of Secretary Stans, footnote 13.

¹⁵See "Problems Faced by a Technically-Oriented Small Business", J. P. Perry, October 19, 1965, 175th Anniversary U.S. Patent System, Proceedings, Vol. II, pages 825-834; "Problems Faced By Contract Research Organizations and Development Corporations", John Gray, October 19, 1965, *Ibid.*, pages 836-843.

¹⁶For more recent statements supporting this well-established principle, see: Statement of President Lyndon B. Johnson, 175th Anniversary U.S. Patent System, 1965, Proceedings, Vol. I, page iii; "Technological Innovation, Business Growth and the Public Good", Eugene P. Foley, Assistant Secretary of Commerce, April 27, 1966, 175th Anniversary U.S. Patent System, Proceedings, Vol. II, pages 1112-1122; Address By William E. Schuyler, Jr., Commissioner of Patents, For Delivery Before The International Trade Club Of Greater Kansas City, Inc., Kansas City, Missouri, February 9, 1971; Statement of Secretary Stans, footnote 13; Addresses listed under footnote 2.

¹⁷"USA/USSR Patent Management and Licensing Information Exchange", "les Nouvelles", Special Issue, October, 1971.

¹⁸As noted by Secretary Stans, footnote 13.

¹⁹"The Crisis of Law in Patents", Professor Irving Kayton, address before the Licensing Executives' Society, San Juan, Puerto Rico, October, 1971, "les Nouvelles", Vol. 6, No. 5, pages 216-221; "For Greater Patent Validity", Rene D. Tegtmeyer, *The American University Law Review*, December, 1969, pages 1-24.

²⁰"The Patent-Antitrust Spectrum of Patent and Know-How License Limitations: Accommodation? Conflict? Or Antitrust Supremacy?", S. Chesterfield Oppenheim, address before the Licensing Executives' Society, Washington, D.C., April 21, 1971, "les Nouvelles", Vol. 6 No. 3, pages 78-88.

²¹The amendments also deal with problems left in the wake of *Lear v. Adkins*, 395 U.S. 653 (1969) relative to assertions of patent invalidity by a licensee or an assignor. They do not overturn the doctrine of *Lear* but merely establish the rights and obligations of the parties when a licensed or assigned patent is attacked.

²²"Patent Licenses and Antitrust Considerations", Richard W. McLaren, Assistant Attorney General in charge of the Antitrust Division, 13 *Idea* 61; McLaren, "Recent Cases, Current Enforcement Views, and Possible New Antitrust Legislation", 38 *ABA Antitrust L.J.* 211 at 212 (1969); "Patents and Antitrust: The Legitimate Bounds of the Lawful Monopoly", address by Bruce B. Wilson, "les Nouvelles", Vol. 5, No. 1, (January, 1970); "The Antitrust Attack Upon Restrictive Patent Licenses", *Donnem*, 49 *Mich. State Bar Journal* 36 (1970); "Antitrust Implications of *Lear v. Adkins*", Richard H. Stern, address before the Philadelphia Patent Law Association, February 19, 1970, "les Nouvelles", Vol. 5, No. 3, pages 120-122. "The Antitrust Laws and Restrictive Field Provisions in Patent Licenses", Stern, address before the Licensing Executives' Society, October 15, 1970, "les Nouvelles", Vol. 5, No. 5, pages 228-229. For similar views of a former head of the Antitrust Division, Donald F. Turner, see "Antitrust Enforcement Policy", 29 *ABA Antitrust L.J.* 187 at 188 (1965); "Patents, Antitrust and Innovation", 28 *U. Pitt L. Rev.* 151 (1966); "Conflicts Between Patents and Antitrust Laws", 10 *Idea* 32 (1966).

²³*Rubber Company v. Goodyear*, 76 U.S. 788 (1869); *Gamewell Fire-Alarm Telegraph Co. v. Brooklyn*, 14 Fed. 255 (E.D. N.Y. 1882); *General Talking Pictures Corp. v. Western Electric Co.*, 305 U.S. 124 (1938).

²⁴Quoted from *The New York Times*, January 3, 1972.

²⁵See the cases cited at footnote 23, as well as the address of Professor Oppenheim, footnote 20.

²⁶Generally as worded in *United States v. General Electric Co.*, 272 U.S. 476 (1926), at 489.

²⁷Proposed Section 271 (h)(2)(a). See footnote 7.

²⁸Footnote 1.

²⁹College Professor's letter of May 7, 1971 to the Subcommittee on Patents, Trademarks and Copyrights, *Antitrust and Trade Regulation Report*, May 11, 1971, pages E-1 through E-6.

³⁰"Trust Lawyers Lobbying Hard to Kill Patent Law 'Reform'", Stephen M. Aug., *The Washington Star*, October 3, 1971; "Help-

ing Hand to the Patent Lobby, Jack Anderson, *The Washington Post*, October 2, 1971; "Patent Bill Threat to Anti-Trust", Patrick J. Sloyan, *San Francisco Examiner*, October 4, 1971.

³¹For a refutation of the unfounded charges that the amendments would in some way affect the outcome in the pending Justice Department antitrust suit against Westinghouse Electric and the Mitsubishi companies, see "The Effect of The Scott Amendments, If Enacted, On the Antitrust Action Filed Against Westinghouse And The Mitsubishi Companies", by Brian G. Brunsvol, "les Nouvelles", Vol. 6, No. 5, (December, 1971), pages 260-264. For a summary of the charges and a statement by Westinghouse, see "les Nouvelles", Vol. 5, No. 3, (May, 1970), pages 116 and 117.

"LICENSING A 'PACKAGE' LAWFULLY IN THE ANTITRUST CLIMATE OF 1972"

by
Alan C. Rose*

(Initially presented at the Fourth Annual Institute of Licensing Law and Practices — Americana Hotel, New York City: May 22, 1972).

My topic for this morning is "LICENSING A 'PACKAGE' LAWFULLY".

In addition to giving consideration to the individual legal points which are involved, it is important to consider the background of this area of the law, the present status of recent developments and trends, and a philosophy or an approach in drafting licenses which will probably best serve the interests of your clients, when viewed against this backdrop.

Patent, trademark and technical information licenses are right at the interface between the patent laws and the antitrust laws. I often have a mental picture of a surfacer or a line separating the body of patent law and the body of antitrust law, with legal decisions, statutory changes and various other legal and political forces pushing the line or surface in one direction or the other.

Carrying the analogy one step further, out on the West Coast, we have a residential area known as the Pacific Palisades, and at the edge of this area toward the Pacific Ocean, there is some unstable ground; and we occasionally lose a house or two which slide down onto the Pacific Coast Highway. This erosion of the Pacific Palisades is similar to the erosion of Patent Licensing Law to the precipice of the antitrust laws.

Unfortunately for our nation, as I see it, for the past few decades, the antitrusters have had the best of it, in the patent law field as well as in other areas of the law, and the patent and proprietary licensing bodies of law have been giving ground to antitrust law. The antitrusters have branded patents as "monopolies" rather than referring to them as "inventions" or "contributions", conveniently forgetting that without inventions there would be nothing to fight about and no progress in the area in question.

At the present time and over the recent past we are witnessing vigorous anti-patent efforts on the part of the United States Justice Department. For example, during the past year or two, the Justice Department filed a brief amicus before the Supreme Court recom-

mending that the Doctrine of Equivalents be overruled, and has sought to limit many of the licensing alternatives previously available to the owners of proprietary rights.

Most surprisingly, all of this anti-patent effort by the United States Justice Department is occurring at a time: (1) when the United States is lagging in the technological battle with Russia, Japan and other foreign countries; and (2) where we have a serious Balance of Payments deficit resulting in part from this technology lag; and we therefore need patent incentives as never before.

The Patent System is certainly not perfect. I believe that strong efforts should be made to rectify its deficiencies. As a prime example, the Patent Bar should give further serious consideration to practical ways and means for getting the best prior art in front of the Patent Office, thus eliminating one of the major sources of patent invalidation in the courts.

However, the remedy for particular deficiencies in the Patent System is not to chip away at the scope of patent protection and at licensing alternatives, and thus deprive good patents on good inventions of their strength and vitality. Outstanding inventions are still respected and generally upheld, but it is in the area of medium level inventions, which are "unobvious" in the normal meaning of the word, and which "promote the useful arts" (to use the Constitutional phrase), where the principal erosion of the Patent System has taken place.

The antitrusters make statements to the effect that the same numbers of inventions would be made and developed even without patent incentives. *This is nonsense.* I have had a great deal of contact with business managers, and I know that Research and Development budgets are now cut back to some extent because of the erosion of our Patent System; and further erosion of the Patent System will produce further diversion of funds from R & D budgets, to advertising and other areas where the return will be greater. Similarly, brilliant and innovative people will direct their talents and efforts away from inventing and patenting toward more fruitful endeavors if the Patent System is not strengthened and rebuilt.

President Abraham Lincoln said that "The Patent System added the fuel of interest to the fire of genius", and it is imperative the United States Justice Department not quench the fires of United States genius and of technological progress with an antitrust fire extinguisher.

Getting back to the subject at hand, we see that, at the interface between patents and the antitrust laws, there is a boundary between conduct which is legally within the scope of the patent rights, and conduct which is clearly improper as violating the antitrust laws. In addition to the actual interface, there is a gray area near the interface, where the Justice Department is seeking, on a case-by-case basis, to have the law revised and brought into the forbidden zone.

This gray area is somewhat nebulous in scope, and legal draftsmanship which will keep the Licensor away from problem areas is not made easier when you are licensing a group of inter-related proprietary rights.